HHS News
U.S. Department of Health and Human Services
www.hhs.gov/news

FOR IMMEDIATE RELEASE
Friday, Jan. 21, 2005

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HHS TAKES MAJOR STEP TO PRESCRIPTION DRUG BENEFIT
Final Rules Provide New Help with Drug Costs
Improve Medicare Health Plans and Establish Options for Retirees

HHS Secretary Tommy G. Thompson today announced the final regulations establishing the new Medicare prescription drug benefit and improved access to health care services through Medicare.

"For too long, America's seniors have struggled to pay for their medicines. Today sets in motion historic developments for the elderly and disabled. In less than a year, for the first time, Medicare will offer a prescription drug benefit to help them pay for the prescription drugs their doctors tell them that they need," Secretary Thompson said.

The prescription drug benefit, and the other provisions included in the regulations issued today are key elements of the Medicare Modernization Act passed by Congress and signed into law by President Bush on Dec. 8, 2003. Enrollment for the new prescription drug plans will begin this November.

The regulations issued today:

- Create the first prescription drug benefit for beneficiaries in fee-for-service Medicare. Medicare Advantage plans will continue to offer prescription drug coverage to enrollees and enhance their existing coverage.
- Help ensure that retirees who currently receive health and drug coverage from their former employers or unions will continue to be able to do so.
- Improve the Medicare Advantage program and for the first time offer a regional preferred provider organization (PPO) contracting option.
- Offer two new less costly options for Medigap coverage.

The final regulations, developed after an extensive public comment process that began when proposed rules were published in August, will be on display at the *Federal Register* today. Fact sheets accompanying this press release provide more extensive summaries and describe the key changes between the proposed and final rules.

"All people with Medicare are now one huge step closer to having a new drug benefit and new health plan options, regardless of their income or how they receive their medical coverage," said Centers for Medicare & Medicaid Services Administrator, Mark B. McClellan, M.D., Ph.D. "In less than a year, seniors will get critical new help with access to 21st century, prevention-oriented medical care."

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While the Medicare-approved drug discount card remains active throughout 2005, the regulations issued today begin the shift from providing discounts and temporary assistance alone to providing broad-based drug coverage in 2006.

The Medicare Prescription Drug Benefit

The new regulations will provide a prescription drug benefit available to everyone who is in Medicare, regardless of their income, how they get their health care now (whether through traditional fee-for-service Medicare or a Medicare Advantage plan) or how they currently get their drug coverage.

The new rules ensure the drug benefit will:

- Offer comprehensive help for those with limited means – including no premiums or deductibles for more than nine million beneficiaries
- Give beneficiaries a choice of at least two drug plans that will cover a comprehensive set of both brand name and generic drugs
- Give beneficiaries convenient access to pharmacies, generally within just a few miles or less of their home.
- Guarantee that Medicare beneficiaries living in nursing facilities will be able to enroll in a drug plan and take advantage of the new benefit. All prescription drug plans will contract with long-term care pharmacies.
- Ensure that dual eligible beneficiaries who have both full Medicaid and Medicare benefits are automatically enrolled in a drug plan if they fail to sign up by the middle of December, so that they have no gap in coverage with the transition to the Medicare benefit.

Coverage for Retirees

The new rules give employers and unions a menu of flexible options enabling them to continue providing high-quality drug coverage for their retirees at a lower cost. An employer whose coverage is at least as good as or better than the Medicare benefit and whose contribution to coverage is as good as or better than the Medicare subsidy can receive a tax-free subsidy for continuing that coverage. The rules also help employers supplement or "wrap around" the Medicare drug benefit, so comprehensive coverage can be provided at a lower cost, just as many employers currently supplement Part A and B benefits. Employers can also use their own customized prescription drug plan or Medicare Advantage plan to provide comprehensive coverage. Finally, for the many retirees in plans with little or no employer contribution, enrolling in the Medicare Part D benefit allows them to lower their drug costs because of the 75 percent subsidy it provides -- and employers can provide financial assistance in this case as well, for example by paying the Part B premium or supporting an account based arrangement to provide tax-free payments for health care costs.

More Help for Beneficiaries Receiving State Benefits

States will be able to enhance coverage they offer because the new drug benefit will save states about $8 billion over the next five years. States will only have to pay a portion of the drug costs for "dual eligible" Medicare beneficiaries with Medicaid drug coverage, based on their own prior Medicaid drug

cost experience. States with State Pharmacy Assistance Programs (SPAPs) will be able to provide the same or better coverage for their beneficiaries at a lower cost per beneficiary for the states, and states with Pharmacy Plus programs can also wrap around the Medicare benefit to help lower their costs. States will also be able to receive new assistance with the costs of drug coverage for their retirees, just like other employers offering qualified retiree drug coverage.

More Opportunities in Medicare Advantage Programs

Medicare Advantage will be strengthened to provide lower-cost coverage and additional benefits to even more beneficiaries. Those who choose a Medicare Advantage plan can get drug benefits as part of their overall health plan, allowing the plans to better coordinate beneficiaries' medical care and drug coverage.

The rules create a new regional Medicare Advantage Preferred Provider Organizations (PPOs) contracting option as an additional choice for Medicare beneficiaries beginning on Jan. 1, 2006. A new competitive bidding system for paying Medicare Advantage plans is also established. These changes provide important new options for Medicare beneficiaries who lack comprehensive and inexpensive supplemental coverage (for example, from Medicaid or an employer) that provides extra benefits and lower out-of-pocket costs compared to the traditional fee-for-service Medicare plan. Recent studies indicate that beneficiaries in a Medicare Advantage plan pay about $700 less a year in out-of-pocket medical costs, and sicker beneficiaries may save as much as $1,900.

Unlike the current Medicare Advantage program, which features local plans that serve individual counties and groups of counties, the new regional PPOs will serve 26 regions across the U.S., which include all rural areas. The regional maps were released on Dec. 6, 2004, and can be found at *http://www.cms.hhs.gov/medicarereform/mmaregions*.

All regional PPO plans are required to offer the same benefits as traditional fee-for-service Medicare with simplified cost-sharing and new protections against catastrophic costs. They are also expected to offer additional benefits not available in fee-for-service Medicare.

Medicare is also implementing full risk adjustment of its payments to all Medicare Advantage plans, moving from 50 percent risk adjustment in 2005 to 75 percent in 2006 and 100 percent in 2007. Consequently, the funding for coordinated-care plans in Medicare will be increasingly concentrated on beneficiaries who have predictably high health needs. The new rule also provides even more assistance for beneficiaries with special needs by supporting the creation of plans to offer health care services to such beneficiaries, including those who are dually eligible for Medicaid, those with severe or disabling chronic conditions, and those who live in nursing homes and other long term care institutions.

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